

Erkki Liikanen
Bank of Finland

Monetary policy and the Finnish economy

Press briefing
13 June 2017
Bank of Finland





Monetary policy accommodative



Euro area growth and price outlook

Eurosystem staff macroeconomic projections from last week

GDP

- **2017: 1.9%**
- **2018: 1.8%**
- **2019: 1.7%**

Inflation

- **2017: 1.5%**
- **2018: 1.3%**
- **2019: 1.6%**



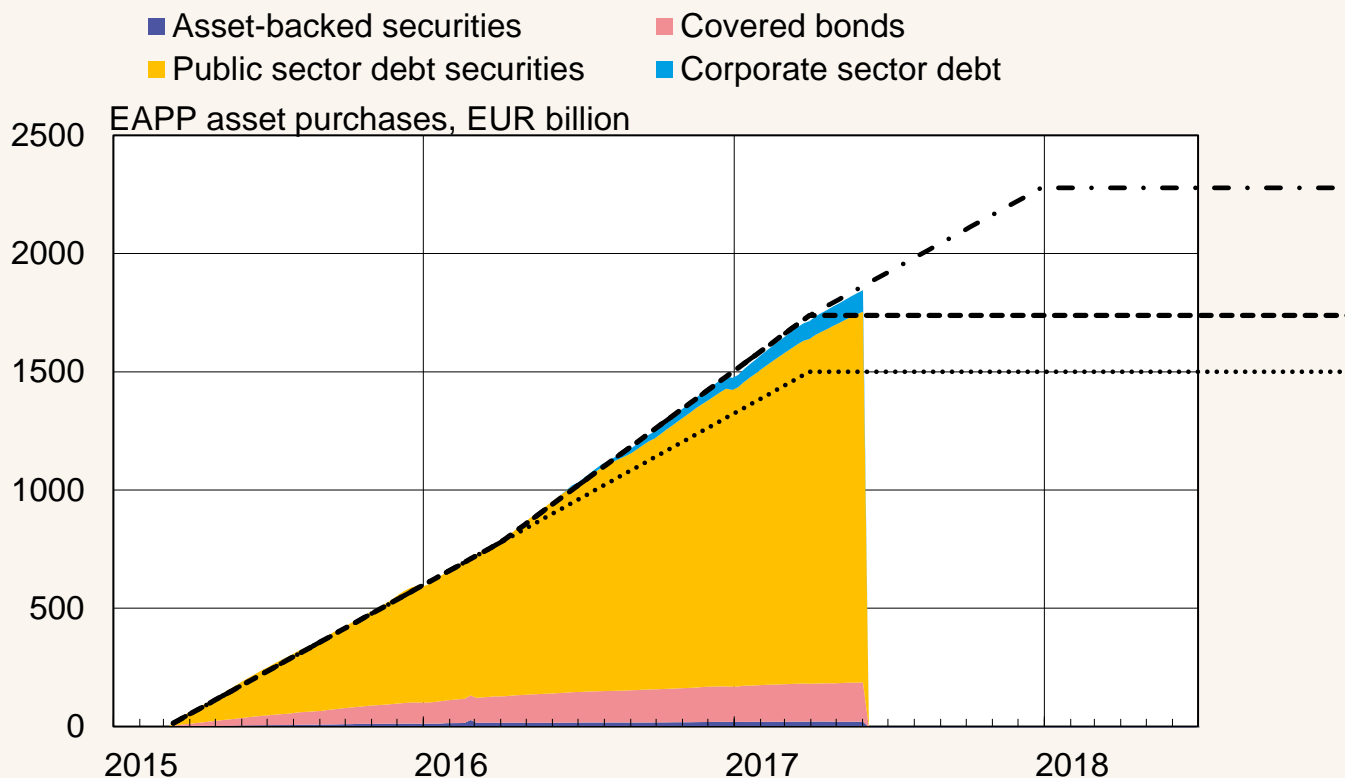
ECB General Council in Tallinn on 8 June: Accommodative monetary policy to be continued

- ***Net asset purchases are intended to run until the end of 2017, as previously announced, at a monthly pace of EUR 60 billion.***
 - ***Net purchase may be made even beyond the above deadline, if necessary, until a sustained adjustment is seen in the path of inflation consistent with the price stability objective.***
 - ***Reinvestments of interest and principal payments from maturing securities will continue even after termination of the net purchases.***
 - ***If the outlook becomes less favourable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, the ECB Council stands ready to increase the asset purchase programme in terms of size and/or duration.***

- ***Forward guidance regarding interest rates***
 - ***The ECB Council expects the key ECB interest rates to remain at their present levels for an extended period of time, and well past the horizon of the net asset purchases.***



Purchases under the expanded asset purchase programme, in cumulative terms



Sources: ECB and Macrobond.

32422@EAPP (eng)

The dash-dotted line shows target path announced in December 2016, the dashed line shows target path announced in March 2016, and the dotted line shows the initial target path announced in December 2015.



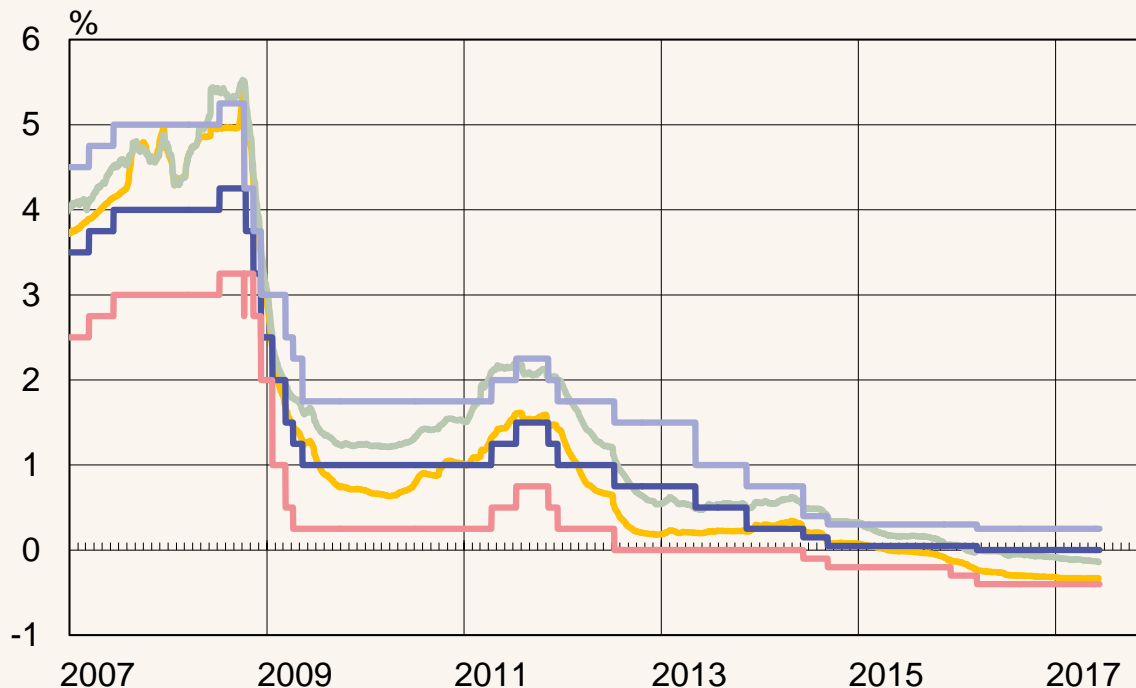
Conditions for achieving a sustained adjustment in the path of inflation consistent with the price stability objective

- Price stability has been defined and its achievement is reviewed **over the medium term**.
- There must be **a sustained convergence** of inflation towards the objective; a temporary increase in prices will be insufficient.
- Price stability needs to be achieved in such a way that it is **self-sustaining**, i.e. price developments must be consistent with the objective also in a situation where the current very accommodative stance of monetary policy is withdrawn.
- Price stability objective refers to **euro area average** inflation



Monetary policy rates and short-term market interest rates

- 3-month Euribor
- 12-month Euribor
- Interest rate on main refinancing operations (MROs)
- Interest rate on the deposit facility
- Interest rate on the marginal lending facility



Sources: ECB and Macrobond.

patu32422@ohjauskorot



The Finnish economy is embarking on a growth path, but its overall condition is still vulnerable.



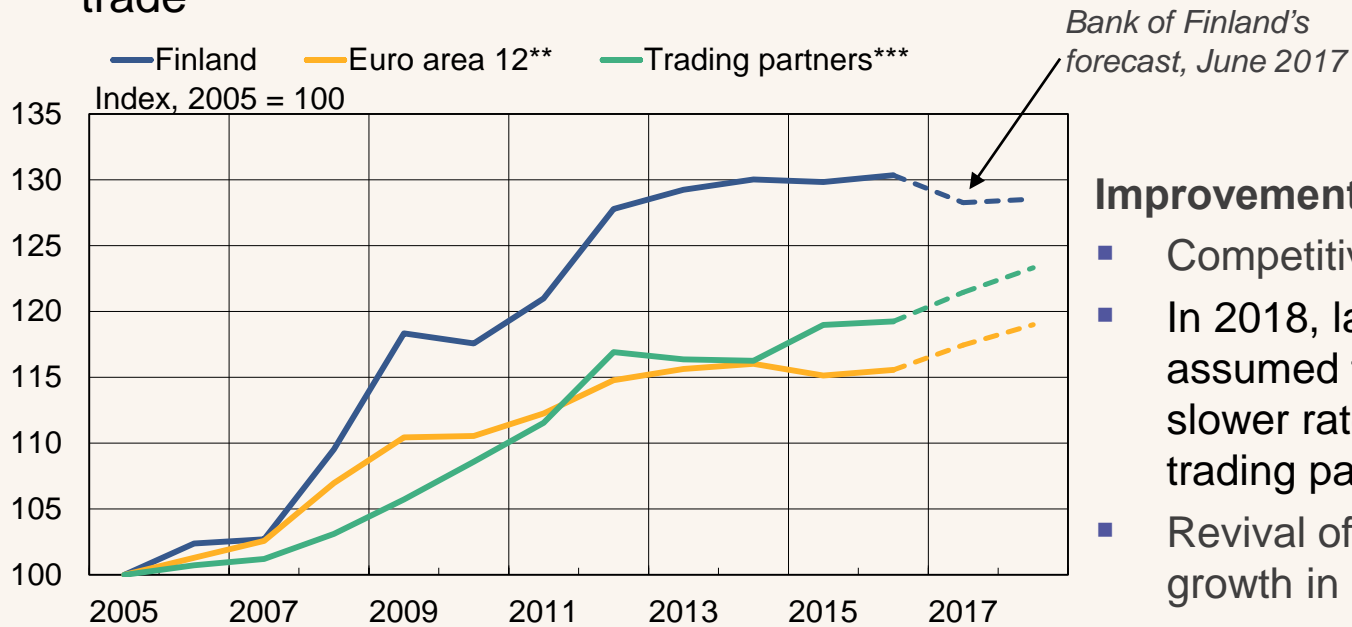
Outlook brighter than before

- ***After several years of weak performance, growth is now forecast to continue.***
- ***Activity is more balanced than before, with exports also growing.***
- ***Exports are bolstered by both the external environment and improvements in cost-competitiveness.***



Cost-competitiveness projected to improve

Unit labour costs adjusted for changes in terms of trade*



Improvements in 2017–2018

- Competitiveness Pact
- In 2018, labour costs are assumed to increase at a slower rate than for trading partners
- Revival of productivity growth in Finland

*) Labour compensation relative to real national income.

***) First 12 euro area member states. ***) 14 traditional industrial countries.

Forecasts: Bank of Finland (Finland) and European Commission (other countries).

Sources: Statistics Finland, Bank of Finland and European Commission.

34093



Labour productivity to increase relative to labour costs in 2017

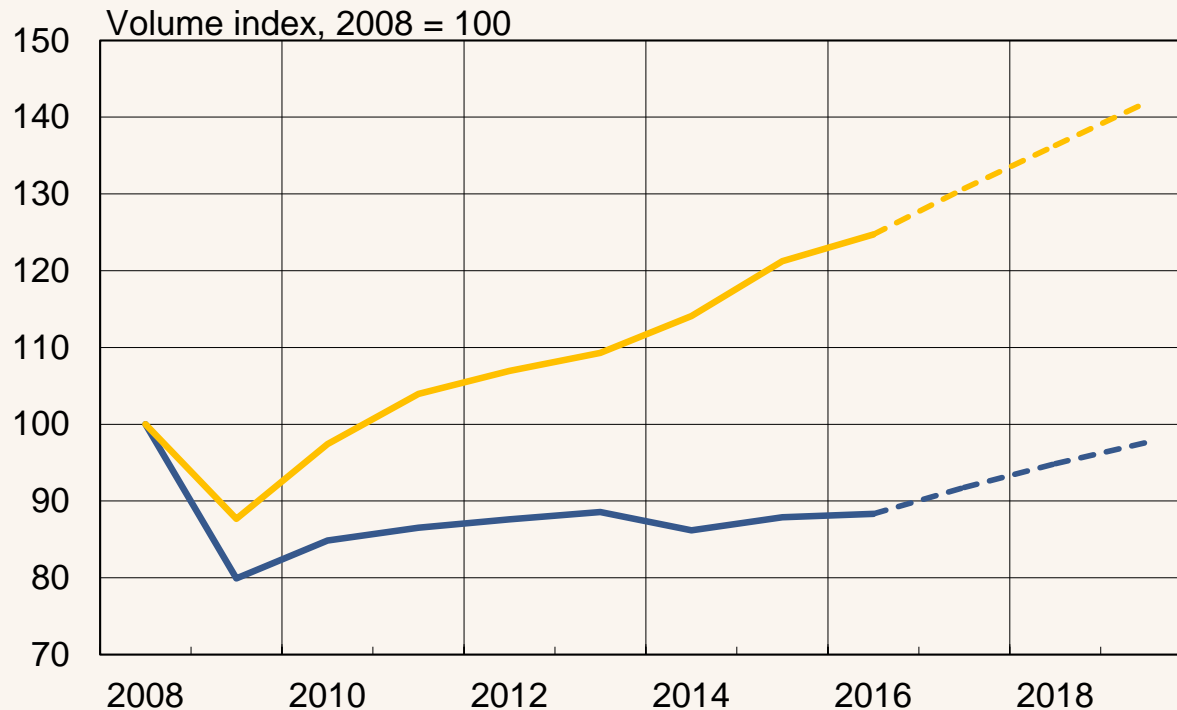
	Labour compensation (incl. employer social security contributions)	Labour productivity
	Per employee, Annual change, %	
2016	1.1	1.0
2017f	-0.3	1.5
2018f	1.1	1.0
2019f	1.4	1.0



Finnish export growth has been historically weak

Exports of goods and services

— Finland — Euro area*



*) Includes intra-euro area trade.

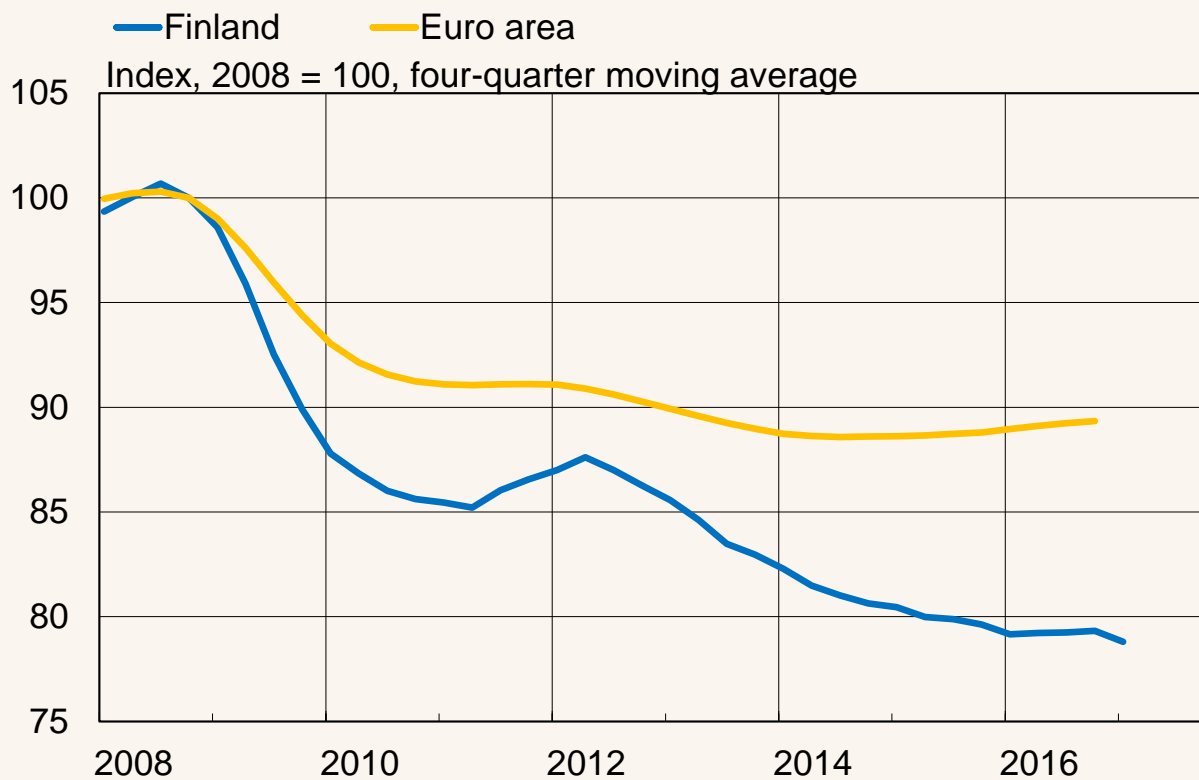
Forecasts: Bank of Finland (Finland) and Eurosystem (euro area).

Sources: Bank of Finland and European Central Bank. 34236



Exceptional decline also in manufacturing employment

Number of employed in manufacturing



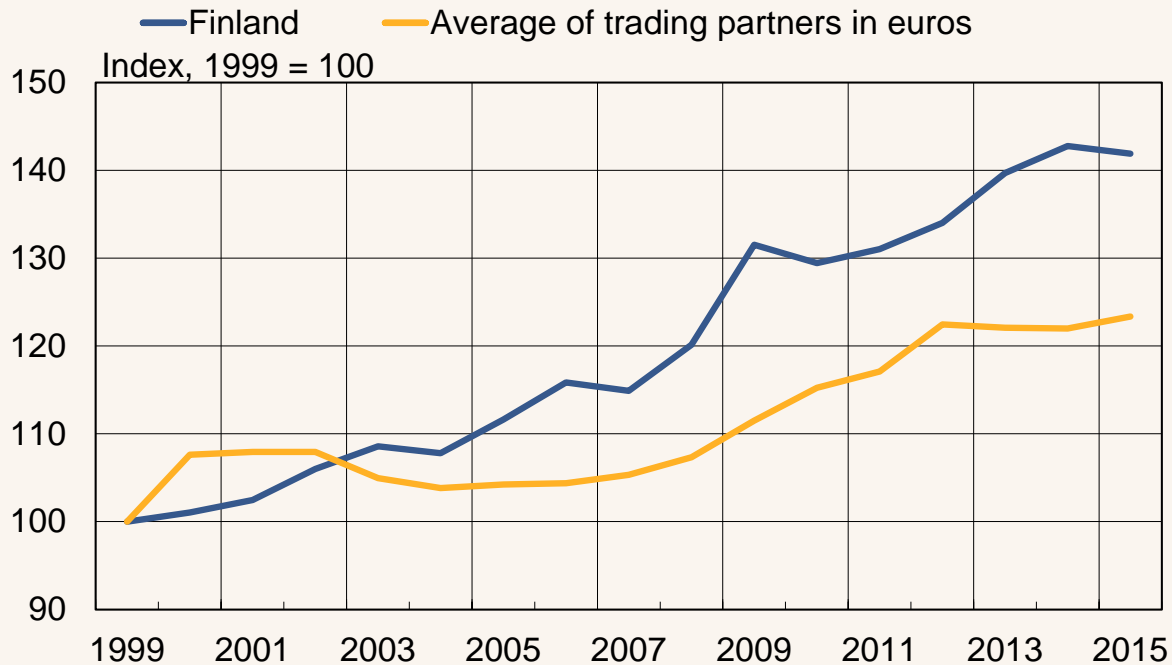
Sources: Statistics Finland and Eurostat.

34237



Costs have risen in those industries in Finland from which export sectors buy domestic inputs

Unit labour costs in sectors producing intermediate goods for manufacturing*



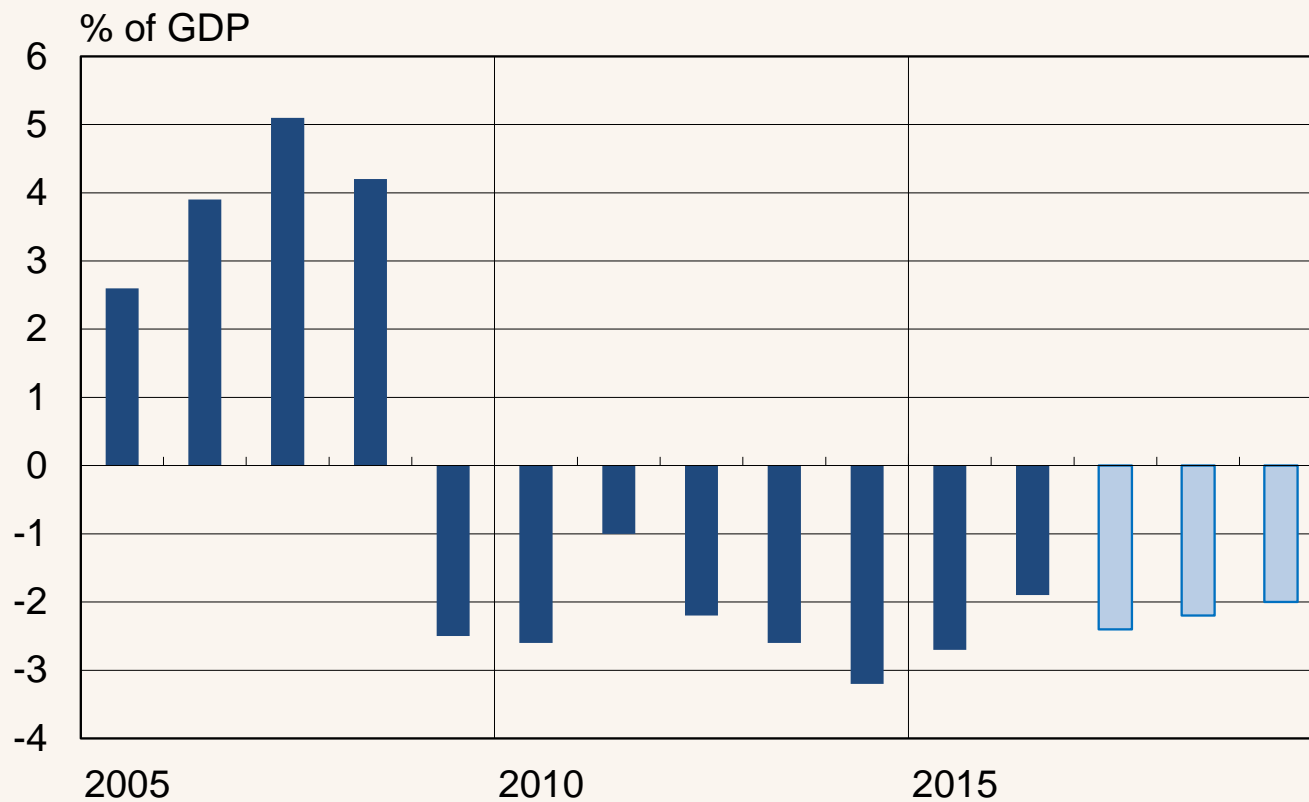
*) Industries other than manufacturing, weighted by their shares in the intermediate consumption of Finnish manufacturing. The figures exclude the financial sector, public administration, as well as education and health services, for which measurement of productivity is uncertain.

Sources: Eurostat, OECD, US BEA and calculations by the Bank of Finland. 34112



General government deficit persists

General government net lending



Sources: Statistics Finland and Bank of Finland.

34238



Sustainable attainment of high growth rates of previous decades not expected

- ***Two significant underlying factors:***
 - ***Demographic developments, ageing***
 - ***There has been a trend decline in labour productivity growth.***
- ***Therefore, without new measures, public revenue will not be sufficient for financing public expenditure in the long term.***



Measures to strengthen the economy have been important

- *Since 2008, the economy has faced several negative shocks*
- *Decisions to strengthen the outlook have been important*
 - *Pension reform*
 - *Competitiveness Pact*
 - *Measures to strengthen the public finances*
- *Despite resumption of growth, the economy remains vulnerable*



Measures to strengthen the economy need to be continued

Four key areas:

- ***A turnaround has been achieved in the development of unit labour costs. It is of primary importance that there is no slippage and that the losses to date are recouped.***
- ***It is important to raise the employment rate, particularly to reduce youth unemployment.***
- ***Productivity growth is a precondition for higher standards of living. To boost this, we need education, investment, reorganisation of labour, initiative, competition.***
- ***We need to consolidate the public finances and to strengthen their long-term sustainability, also from the perspective of fairness between the generations.***



Articles

- ***Estimation of structural unemployment important, but complicated***
 - *Meri Obstbaum and Mikko Sariola*

- ***Finland struggling to defend its market shares on rapidly expanding markets***
 - *Petri Mäki-Fränti and Seppo Orjasniemi (Economic Policy Council)*

- ***How can we measure the economy in the digital era?***
 - *Juha Itkonen*

- ***Success of companies reflected in wages and employment***
 - *Juuso Vanhala, Matti Viren and Satu Nurmi (Statistics Finland)*



Juha Itkonen: How can we measure the economy in the digital era?

www.eurojatalous.fi

- *Digitalisation generates economic well-being and new business.*
- *The market entry of new products always poses a challenge for the measurement of changes in GDP volume.*
- *Rather than a measure of well-being, GDP is a measure of market output.*
- *GDP is a useful indicator of developments in the funding base of the public finances.*
 - *It is not affected by, for example, digital services provided free of charge.*



Thank you!